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C O N F I D E N T I A L TEL AVIV 001019

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SUBJECT: DEPUTY BUDGET DIRECTOR: GOI TO FORMULATE U.S.

ASSISTANCE REQUEST SOON; EXTRA DISENGAGEMENT EXPENSES

PUSHED OUT TO 2006

Classified By: DCM Gene A. Cretz for Reasons 1.4 (b,d)

1. (C) Summary. Deputy Budget Director Yossi Gordon informed Deputy Economic Counselor February 17 that the Ministry of Finance was going to develop a request for U.S. assistance to help pay for the military aspects of disengagement over the next two weeks to one month. He also said that the GOI would not allow the ever expanding costs of disengagement to break the budgetary "framework" for 2005, defined as a budget deficit limited to 3.4% of GDP and real expenditure growth limited to 2%. The GOI would do this by pushing disengagement-related expenses in excess of the "framework" to 2006. End Summary.

2. (C) Gordon spoke in the wake of the February 16 Knesset vote approving the disengagement compensation and evacuation legislation. He said the compensation provisions in the law would cost about NIS 4 billion, significantly more than originally budgeted by the GOI. He noted that the military-related costs of disengagement were also going up with time and the GOI was now estimating these would cost approximately NIS 2 billion. Nonetheless, Gordon stressed disengagement-related expenditures would have "no impact" on the 2005 budgetary framework. Specifically, the GOI would stick to its limit of NIS 2.2 billion in disengagement-related expenditures in the 2005 budget. This meant that "the 2005 deficit will not exceed 3.4% of GDP." Gordon said that the GOI would achieve this goal by pushing 2005 budget-breaking costs out to FY 2006: "Disengagement will take place towards the end of the year, which means it will not be difficult to push expenditures into 2006."

3. (C) When pressed for details on other budget-busting aspects of recent 2005 budget developments, such as the MoF's failure to repeal a number of special tax exemptions, Gordon said he was not in a position to comment. "We've been consumed with disengagement," he said, "and only now am I turning back to the budget."

GOI To Begin Working on Request for U.S. Assistance
within 2 Weeks of Cabinet Vote on Disengagement

4. (C) Gordon said a group headed by MoF DG Bachar would begin the process of formulating a request for U.S. assistance within two weeks of the cabinet vote on disengagement, which Gordon expected would take place February 20 or 27. The request would focus primarily on support for military-related costs of disengagement. He noted that the formulation of such a request did not mean that the GOI would definitely end up submitting it; that decision would be taken at a later date.

Comment

5. (C) Although Gordon's comments show the GOI is committed to meeting its amended 2005 budgetary targets, he did not inspire great confidence in his government's ability to keep its deficit on a downward path in 2006 and beyond. This should be a major topic for the upcoming 2005 JEDG.

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